AN ANALYSIS OF IMPACT OF INCOME TAX MEASURES ON REVENUE GENERATING CAPACITY OF GOVERNMENT OF INDIA (STUDY WITH SPECIAL REFERENCE TO CORPORATE TAXATION)

1. Shantanu S Bose, 2. Dr. Aparna Samudra

Abstract: Taxation plays a vital role in economic development of any nation. 60% of the total revenue generated by Government of India is by means of taxation. A tax which is imposed on the income of corporate is known as corporate tax. A corporate tax, also called corporation tax or company tax, is a direct tax imposed by a jurisdiction on the income or capital of corporations or analogous legal entities. Central Government every year in its union budget adopts several measures in the taxation system which determines the impact on the revenue generating capacity, for the economic development of the nation. In this broader tax structure corporate tax plays a vital & significant role in revenue generation. This research paper focuses on the top three taxation measures in the form of incentives to the corporate in India from financial year 2005-2006 to 2015-2016, and how it has impacted adversely on the revenue generation and also it has provided probable suggestions to improve the revenue generation.

Key Words: Corporate Tax, Weighted Deduction, Surcharge, Additional Depreciation, Impact

Introduction:

Taxation plays a vital role in economic development of any nation. 60% of the total revenue generated by Government of India is by means of taxation. Both direct & indirect taxes play pivotal role not only in generating the revenue but at the same time it is the best possible measure to keep the fiscal deficit under control. In India indirect taxes provide greater assistance as compared to direct taxes as far as revenue generation of government is concerned. In fact the highest revenue which is being generated by Union Government comes from Central Excise. But seeking too much assistance from indirect taxes for generating revenue creates inflationary pressure on the economy. Central Government every year in its union budget adopts several measures in the taxation system which determines the impact on the revenue generating capacity, for the economic development of the nation. In this broader tax structure corporate tax plays a vital & significant role in revenue generation. This research paper focuses on the top three taxation measures in the form of incentives to the corporate in India from financial year 2005-2006 to 2015-2016, and how it has impacted adversely on the revenue generation and also it has provided probable suggestions to improve the revenue generation.

Meaning and Importance of Corporate Tax:

A tax which is imposed on the income of corporate is known as corporate tax. A corporate tax, also called corporation tax or company tax, is a direct tax imposed by a jurisdiction on the income or capital of corporations or analogous legal entities. Many countries impose such taxes at the national level, and a similar tax may be imposed at state or local levels. The taxes may also be referred to as income tax or capital tax. Partnerships are generally not taxed at the entity level. A country's corporate tax may apply to: corporations incorporated in the country, corporations doing business in the country on income from that country, foreign corporations who have a permanent establishment in the country, or Corporations deemed to be resident for tax purposes in the country. Generally, the tax is imposed on net profits of the company. It comes under the head Income from Business & Profession. Therefore we can realize that the scope of corporate tax is very wide when it comes to generation of revenue from income tax i.e. direct tax. The first and foremost importance of corporate tax is that its scope is very wide. At present a flat rate of 25% corporate tax is levied on the income earned by a domestic corporate. A surcharge of 5% is levied in case the turnover of a company is more than Rs.1 Crore for a specific financial year. Secondly if the chunk of revenue can be generated by way of corporate tax , it would be beneficial both for the government as well for the masses, because government can generate huge amount of revenue without relying on taxing individuals heavily and thereby it can increase the disposable income of the individual.

Specific Corporate Taxation measures in the form of incentives:

Although there are several income tax measures (with reference to corporate tax) which were adopted by government of India, we will discuss here three distinct measures that have prominent impact on revenue generation. In-fact due to these measures a major chunk of revenue has been forgone. The revenue forgone on account of these measures are in lakhs of crores for a period of 11 consecutive financial years i.e from 2005-2006 to 2015-2016. Following are the important measures on account of which a substantial amount of revenue has been forgone from 2005-2006 to 2015-2016:

i) Weighted deduction for scientific research and development (section 35(2AB)):

This particular measure is a part of Sec. 35 i.e. deduction available to the company which are engaged in either scientific research or research in social science or statistical research and which are incurred expenditure in this particular aspects. The section 35(2AB) deals with the clause c. i.e. In house scientific research & expenses for specified companies**.** Where a company engaged in the business of bio-technology or in any business of manufacture or production of any article or thing, (except Eleventh Schedule article) incurs any expenditure on scientific research (not being expenditure in the nature of cost of any land or building) on in-house research and development facility as approved by the prescribed authority, then, there shall be allowed a deduction of a sum equal 200% of the expenditure so incurred. This is one of the measures that in-fact has significant impact on the revenue generation.

ii) Accelerated/Additional Depreciation (section 32):

Under this section, An additional depreciation is also provided to the assese on the basis of the following condition: i) Assessee must be engaged in the business of manufacture or production. ii) Assessee has installed a new plant and machinery in factory during the previous year. Rate of depreciation: The rate of additional depreciation is 20% On account of these measures the total amount of revenue forgone is Rs.2,91,647.7 crores which is a substantial one.

iii) Donations to charitable trusts and institutions (section 80G):

Section 80G of the Income Tax Act primarily deals with donations made towards charity, with an aim to provide tax incentives to individuals indulging in philanthropic activities. An amount donated by an individual to an eligible charity can be claimed as a tax deduction while filing of an income tax return. Donations made under this category enjoy 100% tax deduction and are not subject to any qualification limit being met. Section 80G is a vibrant the measures taken under this section is applicable to corporate asseesee also. The total amount of revenue forgone from 2005-2006 to 2015-2016 on account of this measue is Rs. 21641.86 crore

Analysis of Impact of corporate taxation measures on revenue generation:

The analysis of the abovementioned three measures in the form of incentives to corporate has been done with the help of statistical tools like regression analysis and ANNOVA , which are as follows:

Analysing the relationship between weighted deduction for scientific research and development u/s 35(2AB) and Overall revenue foregone: i.e. change in revenue foregone due to deduction u/s 35(2AB) by changes in overall revenue foregone; hence regression equation can be framed as follows: $\mathbf{Y = \alpha + \beta X}$

Where, X = change in revenue forgone due to deduction u/s 35(2AB); Y = changes in overall revenue forgone during the period of 10 years

Table No: 1

Year	Weighted deduction for scientific research and development (section 35(2AB)). Quantum of deduction: 200% of expenditure incurred in Rs. Crores	Overall Revenue Forgone in Rs. Crores
2005-06	2839	34618
2006-07	4107	45034
2007-08	2000	62199
2008-09	2216	66901
2009-10	2416	72881

2010-11	2926	57912
2011-12	5747.6	61765
2012-13	6335.7	68007
2013-14	7527.1	57793
2014-15	8401.97	65067
2015-16	10107.4	76858

Table: Accelerated Depreciation (section 32) and Overall Revenue Forgone from all sources (Source: www.indiabudget.nic.in)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.862[a]	.731	.734	11896.39811

a. Predictors: (Constant), Weighted deduction for scientific research and development (section 35(2AB)).

Quantum of deduction: 200% of expenditure incurred

b. Dependent Variable: Overall Revenue Forgone

From the above table the R square value is .731 and adjusted R square value is .734 and this enlighten us that the model account for 73.4% of variance in the present study. This is the clear indication that this model is a good model. Also the R value is 0.862 which states that there is **a strong relationship** between change in revenue forgone due to weighted deduction in scientific research & development and change in overall revenue forgone. Thus, Weighted deduction in scientific research & development have negative impact on overall revenue collection. Thus the above equation is redrafted as, **Change in overall revenue forgone = 53111.903 + 0.862 Change in revenue forgone due to weighted deduction in scientific research & development.**

Analysing the relationship between accelerated depreciation and Overall revenue foregone: i.e. change in revenue foregone due to accelerated depreciation by changes in overall revenue foregone; hence regression equation can be framed as follows: $\mathbf{Y = \alpha + \beta X}$

Where, X = change in revenue forgone due to accelerated depreciation; Y = changes in overall revenue forgone during the period of 10 years.

Table No: 2

Year	**Accelerated Depreciation (section 32): quantum: 20% by way of additional depreciation in Rs. Crores**	**Overall Revenue Forgone in Rs. Crores**
2005-06	641	34618
2006-07	927	45034

2007-08	12946	62199
2008-09	14344	66901
2009-10	29308	72881
2010-11	35494	57912
2011-12	34320.1	61765
2012-13	37831.7	68007
2013-14	34278.3	57793
2014-15	41530.56	65067
2015-16	50027	76858

Table: Accelerated Depreciation (section 32) and Overall Revenue Forgone from all sources. (Source: www.indiabudget.nic.in)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.746[a]	.556	.506	8504.32416

a. Predictors: (Constant), Accelerated Depreciation (section 32): quantum: 20% by way of additional depreciation

b. Dependent Variable: Overall Revenue Forgone

From the above table the R square value is .556 and adjusted R square value is .506 and this enlighten us that the model account for 50.6% of variance in the present study. This is the clear indication that this model is a moderate model. Also the R value is 0.746 which states that there is **a strong relationship** between change in revenue forgone due to accelerated depreciation and change in overall revenue forgone. Thus the above equation is redrafted as,

Change in overall revenue forgone = 46449.669 + 0.746 Change in revenue forgone due to accelerated depreciation

Analysing the relationship between Donations to charitable trusts and institutions (Section 80G) and Overall revenue foregone: i.e. change in revenue foregone due to deduction u/s 80 G by changes in overall revenue foregone; hence regression equation can be framed as follows: **$Y = \alpha + \beta X$.** Where, X = change in revenue forgone due to deduction u/s 80 G; Y = changes in overall revenue forgone during the period of 10 years.

Table No3

Year	Donations to charitable trusts and institutions (section 80G): Quantum of 100% or 50 % as the case may be.	Overall Revenue Forgone
2005-06	3519	34618

2006-07	5090	45034
2007-08	3882	62199
2008-09	4301	66901
2009-10	554	72881
2010-11	671	57912
2011-12	404.3	61765
2012-13	445.7	68007
2013-14	506.7	57793
2014-15	992.26	65067
2015-16	1275.9	76858

Table: Deduction u/s 80G and Overall Revenue Forgone from all sources (Source: www.indiabudget.nic.in)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.896[a]	.646	.613	11077.16260

. Predictors: (Constant), Donations to charitable trusts and institutions (section 80G): Quantum of 100% or 50 % as the case may be. From the above table the R square value is .646 and adjusted R square value is .613 and this enlighten us that the model account for 61.3% of variance in the present study. This is the clear indication that this model is a good model. Also the R value is 0.896 which states that there is **a strong relationship** between change in revenue forgone due to donations to charitable trusts & institutions and change in overall revenue forgone. Thus the above equation is redrafted as, Change in overall revenue forgone = 67303.831 + 0.896 Change in revenue forgone due to donations to charitable trusts & institutions.

Conclusion:

On the basis of the analysis: (1) The measure taken on account of additional depreciation /accelerated depreciation u/s 32 has made a high impact in the revenue generation. In fact a whopping amount of revenue has been forgone on account of this measure from financial year 2005-2006 to 2015-2016. It is a kind of measure which clearly proves that too much tax incentives have negative impact on the revenue generation. On the basis of the figure it can be seen that, the total amount of revenue forgone on account of this particular measure is Rs.2,91,647.7 crores of the period 2005-2006 to 2015-2016. (2) on account of the mesure taken Under Sec. 35(2AB), we can see that a total amount of revenue of Rs. 54,623.77 crores had been forgone. Secondly like accelerated depreciation the amount of revenue forgone under this measure had steeply gone up from Rs. 2839 crores in 2005-2006 to 10107.4 crores in 2015-2016. (3) The total amount of revenue forgone on account of measure taken u/s 80G, during the earlier mentioned eleven financial year is Rs. 21641.86/-. This measure is also showing its significance in the context of revenue generation.

Suggestions & Recommendations: .The measures like Additional depreciation or accelerated depreciation u/s 32 has a very much adverse impact on the revenue generation. Therefore according to our opinion this measure should be abolished. Had this step not taken by the government then , the fiscal and revenue deficit would have been easily filled up over these periods. Like Sec 32 another measure u/s 35(2AB), especially meant for company in specified business, is also creating very much negative impact on revenue generation. Therefore it is important for the government to look at this section and make necessary amendments at times by reducing the rate of deduction and also by keeping a constant watch towards the achievement of research objectives. As far as Sec 80G is concerned (, i.e. donations to charitable and religious trust, the government and policy makers need to rethink it seriously). Religious trust and institutions especially like temple, mosque or gurudwaras or churches does not add anything to our GDP. Therefore, only deduction should be allowed in case of donation to specific fund like Prime Minister's Relief Fund under this section and with the passage of time the rate of deduction needs to be constantly reviewed and amended from time to time, so that these kinds of revenue forgone can be avoided and sumptuous amount of revenue can be generated to cover the fiscal deficit , which will ultimately help in overall economic development of the nation.

--- References:

1. 1. Sanjay Mundhra, Applied Direct Tax, AY 2018-2019, 2018 Edition, Prayas Publication.
2. Institute of Cost Accountant of India, Direct Taxation AY 2014-2015. Edition 2014.
3. Singhania Direct Taxes Law & Practice, Taxman Publication, AY 2017-2018. 2017 Edition.
4. Time Series Data, Income Tax Department.
5. www.india budget.nic.in
6. Jain, Sugan, Garg, Rachana-Direct taxation in India. Arihant Publishing House. Jaipur pp-1-25.